

OMB Circular A-123

(or what the heck, as if I didn't have already enough to do!)

Douglas Glenn, Deputy Chief Financial Officer (GSA)
Timothy G. Morgan, Partner (PwC)

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INTRODUCTIONS

Doug Glenn - Background

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INTRODUCTIONS

Tim Morgan - Background

- ❑ FDIC Improvement Act in the 1990s required internal control attestations for banks
- ❑ SAS 70s, including Bank of America Lockbox and GSA Payroll and Financial Services
- ❑ Performed internal control attestations for SSA, PBGC and GSA
- ❑ Assisting DHS management with DHS *Financial Accountability Act*

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OBJECTIVES

- ☐ To discuss some of the key issues and concepts associated with preparing for and performing OMB Circular A-123 internal controls assessments
- ☐ To discuss some practical issues and lessons learned from our experience

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WHAT WE WILL COVER TODAY

- ☐ What is A-123?
- ☐ Is it a good idea?
- ☐ The process of implementing A-123
- ☐ What's in it for me?
- ☐ Lessons learned

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CHANGE DRIVERS

- ❑ ***Sarbanes Oxley.*** Requires an annual report by management regarding internal controls and procedures for financial reporting, and an audit as to the accuracy of that report by the company's auditors
- ❑ ***Accelerated Reporting.*** New reporting deadline set by OMB requires agencies to complete their Performance and Accountability Reports 45 days after fiscal year end
- ❑ ***SAS 70s.*** OMB Memorandum M-04-11 requires service providers to obtain SAS 70s for significant services provided to other Federal agencies

- ❑ ***The DHS Financial Accountability Act.***

Requires the DHS CFO to

- ❖ Design and implement Department-wide management controls
- ❖ Include in the Performance and Accountability Report for fiscal year 2005, an assertion on internal controls over financial reporting
- ❖ For fiscal years thereafter, to include an audit opinion on DHS' internal controls over financial reporting
- ❖ PCIE and CFOC address the costs and benefits of requiring federal agencies to obtain opinions on internal controls and
- ❖ GAO to report to Congress on the impact of these requirements to other Federal agencies

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Purpose:

- ☐ Establishes requirements for internal control
- ☐ Requires annual assurance statement by agency head

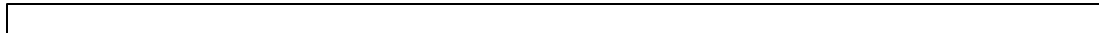
Key Changes for CFO Act Agencies:

- ☐ Establish a senior assessment team to oversee the process
- ☐ Document and assess design and effectiveness of internal control over financial reporting
- ☐ Strengthen documentation of management assessment process of the controls over financial reporting
- ☐ Provide separate assurance statement on effectiveness of internal control over financial reporting
- ☐ Assert to effectiveness of internal control as of June 30, 2006

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IS IT A GOOD IDEA?

Doug's slide



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PROS

- ☐ Federal government should prove it has good controls, just like private sector
- ☐ May make up for the shortcomings in practice of FMFIA
- ☐ Will help bring about processes efficiencies
- ☐ Enhance executive level accountability and responsibility for government assets
- ☐ Will help address material weaknesses
- ☐ Will help with the government-wide audit, allowing GAO to render an opinion on the U.S. government
- ☐ To improve the accuracy and reliability of financial information used by managers to run the business of government

CONS

- ☐ Cost benefit isn't proven (considering both internal and external) – spending dollars to chase dimes
- ☐ Government has too many material weaknesses now – fix those first
- ☐ Too many federal systems are old and outdated and need to be replaced first
- ☐ Focus on Federal government should be on budgeting controls versus proprietary financial statements
- ☐ Conflicting priorities at senior management ranks, will compromise the process, quality of results and commitment (including funding) for corrective actions

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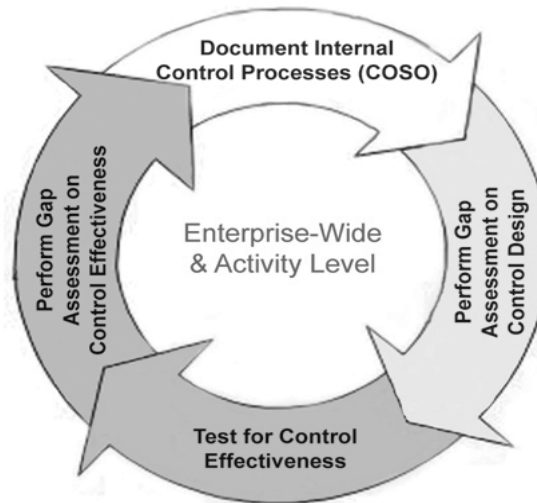
HOW? AN OVERVIEW OF PWC APPROACH

Phase One

- Initiate
- Scope and Plan
- Educate and Communicate

~ 3 months

Phase Two



~ 8 – 15 months

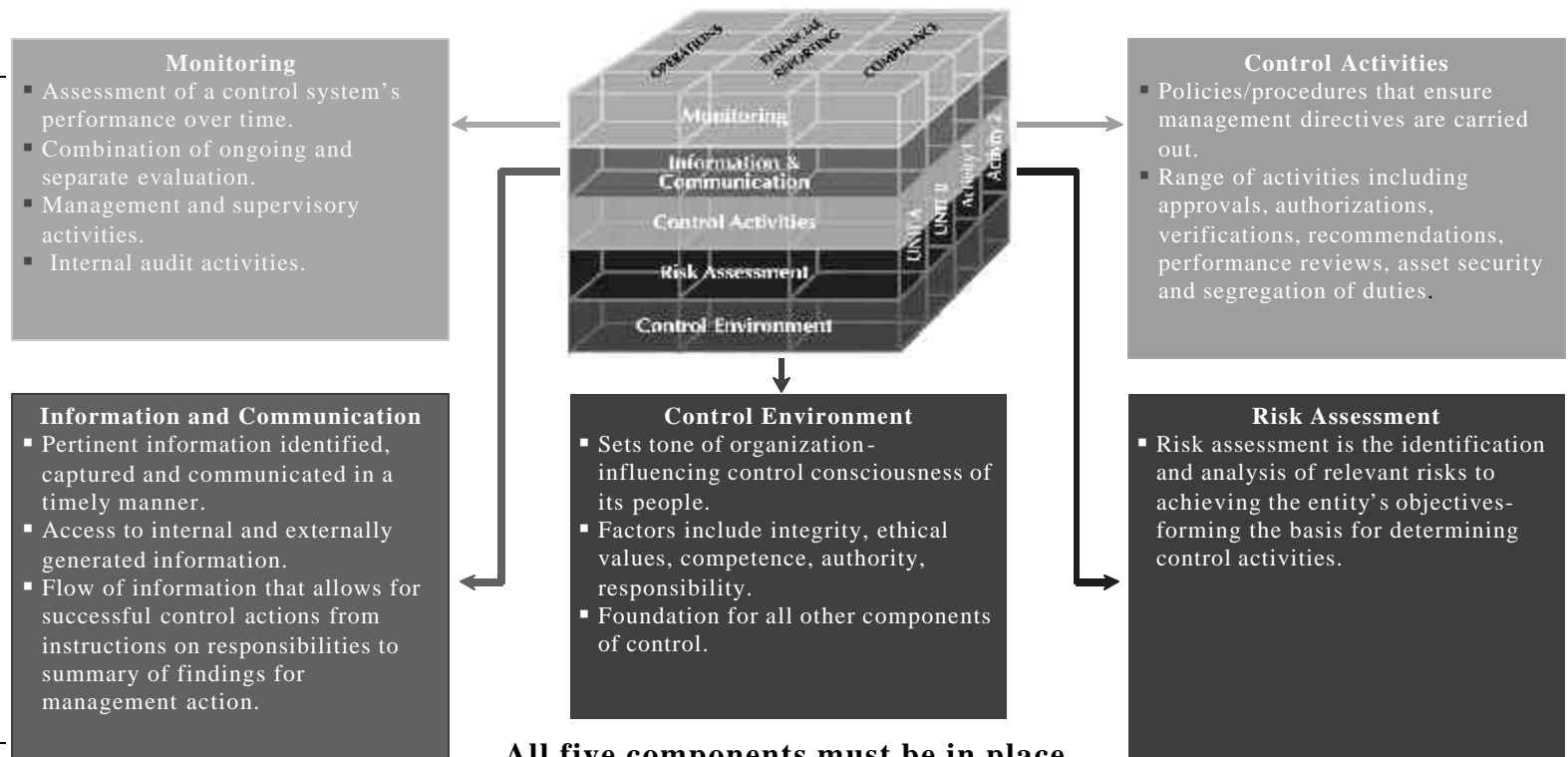
Phase Three

- Remediate
- Issue Assertions
- Implement Ongoing Assessment and Monitoring Processes

~ Ongoing

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WHAT IS INTERNAL CONTROL OVER FINANCIAL REPORTING?



All five components must be in place for control to be effective.

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WHAT IS INTERNAL CONTROL OVER FINANCIAL REPORTING?

- ☐ Involves end-to-end processes from origination to execution of transactions, recording and reporting
- ☐ Includes proprietary and budgetary accounting
- ☐ Includes IT and manual controls
- ☐ Includes controls at significant bureaus
- ☐ Includes compliance with laws and regulations that are significant to the financial statements
- ☐ Includes safeguarding of assets and controls for prevention of fraud
- ☐ Encompasses financial reports in addition to the quarterly and annual financial statements

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WHY? BENEFITS OF SUCCESS IMPLEMENTATION

OPERATIONAL BENEFITS

- ♦ Stronger control over resources
- ♦ Improved performance, efficiency and effectiveness
- ♦ Elimination of manual “work-arounds”
- ♦ Prevention of waste, fraud and abuse

INTANGIBLE BENEFITS

- ♦ Greater accountability
- ♦ Enhanced/sustained credibility
- ♦ Improved auditability

FINANCIAL BENEFITS

- ♦ Reduced costs
- ♦ Reduced audit effort and cost
- ♦ Improved ability to secure funding

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LESSONS LEARNED

- ❑ Communicate from the top down
 - ❑ Executive sponsorship of project
 - ❑ High level steering committee
 - ❑ Regular communications for key project stakeholders, including OIG
- ❑ Create a detailed project plan that shows major tasks, due dates, and responsible individuals
 - ❑ Utilize project office
 - ❑ Leverage technologies
 - ❑ Coordinate with ongoing financial management improvement initiatives (e.g., new systems)

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LESSONS LEARNED

- ❑ Utilize a cross-functional team to perform the assessment
 - ❑ Involves cross section of the organization to perform documentation and assessment work
 - ❑ Understand key business unit risks, systems and processes including relationship to financial statement accounts
 - ❑ Train team in controls, common processes and documentation, and provide ongoing guidance
- ❑ Start with a pilot project:
 - ❑ Increase buy-in
 - ❑ Provide a better basis for schedule and resource estimates
 - ❑ Learn and improve the process
 - ❑ Invest time in the scoping and planning phase
 - ❑ Develop strategy implementation
 - ❑ Initial assessment of significant entities, cycles/process, systems, and locations
 - ❑ Initial assessment of resource needs and timeline

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Questions